Kwa Sani Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Mayoral committee	
Executive Mayor	Mr M Banda
Councillors	Cllr VP Majozi
	Cllr SB Mqwambi
	Cllr PN Mncwabe
	Cllr EZ Radebe
	Cllr D Adam
	Cllr PR Crawley
Grading of local authority	Grade 1
Accounting Officer	Mr MW Dlamini
Chief Finance Officer (CFO)	Miss K Mackerduth
Accounting Officer	Mr MW Dlamini
Bankers	First National Bank of South Africa Limited
Auditors	Auditor- General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 6 to 45, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Accounting Officer

PRACTICE LOGO

Report of the Auditor General

To the Provincial Legislature of Kwa Sani Municipality

Report on the financial statements

I have audited the accompanying annual financial statements of the Kwa Sani Municipality which comprise the statement of financial position as at 30 June 2012, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 6 to 45.

Responsibility of the Accounting Officer for the annual financial statements

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] , and in the manner required by the Companies Act of South Africa [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

The entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note] [note to the financial statements].

Report of the Auditor General

Opinion

In my opinion the annual financial statements present fairly, in all material respects, the financial position of Kwa Sani Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the PFMA/MFMA (if the entity falls within the scope of the PFMA/MFMA) and Companies Act, 1973 (if the entity falls within the scope of the Companies Act) or section xx of the entity's enabling legislation (if the entity does not fall within the scope of the PFMA/MFMA)].

Auditor- General

31 May 2011

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 39, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Acting Municipal Manager: Mr MW Dlamini
August 31, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Investments	5	20 617 486	12 371 586
Other receivables	7&8	1 000 208	838 457
VAT receivable	9	605 770	591 168
Consumer debtors	10	4 499 923	3 874 244
Cash and cash equivalents	11	2 265 912	764 454
		28 989 299	**18 439 909**
Non-Current Assets			
Investment property	2	20 587 156	20 587 156
Property, plant and equipment	3	55 865 455	43 393 313
Intangible assets	4	-	65 310
		76 452 611	**64 045 779**
Non-Current Assets		76 452 611	64 045 779
Current Assets		28 989 299	18 439 909
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**105 441 910**	**82 485 688**
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	6 050 773	4 156 531
Unspent conditional grants and receipts	12	20 160 430	11 546 348
Provisions	13	-	1 540 000
Contingent rentalls	15	354 980	-
Bank overdraft	11	-	69 207
		26 566 183	**17 312 086**
Non-Current Liabilities			
Finance lease obligation		549 833	-
Provisions	13	401 462	389 102
Long Term Portion	14	1 609 130	2 082 729
		2 560 425	**2 471 831**
Non-Current Liabilities		2 560 425	2 471 831
Current Liabilities		26 566 183	17 312 086
Liabilities of disposal groups		-	-
Total Liabilities		**29 126 608**	**19 783 917**
Assets		105 441 910	82 485 688
Liabilities		(29 126 608)	(19 783 917)
Net Assets		**76 315 302**	**62 701 771**
Net Assets			
Accumulated surplus		76 835 966	62 701 771

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	18	10 784 908	9 974 496
Service charges	19	1 941 708	1 836 559
Fines		124 850	143 400
Licences and permits		98 604	86 785
Government grants & subsidies	20	22 327 319	22 225 753
Rental income		241 652	220 489
Other income	21	507 696	689 744
Interest received - external investment	26	760 016	479 529
.Actuarial gains/oss	26	77 858	44 932
Total Revenue		**36 864 611**	**35 701 687**
Expenditure			
Personnel	23	(11 538 022)	(10 945 092)
Remuneration of councillors	24	(1 414 160)	(992 011)
Depreciation and amortisation	27	(1 100 572)	(1 693 653)
Impairment loss/ Reversal of impairments		(3 210 860)	-
Finance costs	28	(349 193)	(280 959)
Debt impairment	25	-	(175 611)
Service costs		(57 393)	(60 177)
Repairs and maintenance		(664 366)	(543 784)
Contracted services	31	(4 470 854)	(3 496 257)
General Expenses	22	(8 518 477)	(15 005 962)
Total Expenditure		**(31 323 897)**	**(33 193 506)**
Fair value adjustments		8 626 156	-
Revenue		36 864 611	35 701 687
Expenditure		(31 323 897)	(33 193 506)
Other		8 626 156	-
Surplus for the year		**14 166 870**	**2 508 181**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**60 785 404**	**60 785 404**
Changes in net assets		
Transfer to accumulated surplus	(591 814)	(591 814)
Net income (losses) recognised directly in net assets	(591 814)	(591 814)
Surplus for the year	2 508 181	2 508 181
Total recognised income and expenses for the year	1 916 367	1 916 367
Total changes	1 916 367	1 916 367
Balance at 01 July 2011	**62 701 438**	**62 701 438**
Changes in net assets		
Other 1	(32 342)	(32 342)
Net income (losses) recognised directly in net assets	(32 342)	(32 342)
Surplus for the year	14 166 870	14 166 870
Total recognised income and expenses for the year	14 134 528	14 134 528
Total changes	14 134 528	14 134 528
Balance at 30 June 2012	**76 835 966**	**76 835 966**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		36 026 737	24 457 358
Interest income		760 016	479 529
Gain on disposal		-	41 514
		36 786 753	24 978 401
Payments			
Employee costs		(18 129 639)	(20 784 850)
Finance costs		(349 193)	(256 292)
Other cash item		-	(65 397)
		(18 478 832)	(21 106 539)
Total receipts		36 786 753	24 978 401
Total payments		(18 478 832)	(21 106 539)
Net cash flows from operating activities	32	**18 307 921**	**3 871 862**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	-	(4 868 926)
Proceeds from sale of property, plant and equipment	3	-	73 100
Proceeds from sale of financial assets		(8 245 900)	-
Proceeds from sale of other asset 1		77 858	858 546
Finance costs		-	(24 667)
Net cash flows from investing activities		**(8 168 042)**	**(3 961 947)**
Cash flows from financing activities			
Movement in long term portion		(473 599)	(321 661)
Finance lease payments		549 833	-
Net cash flows from financing activities		**76 234**	**(321 661)**
Net increase/(decrease) in cash and cash equivalents		**10 216 113**	**(411 746)**
Cash and cash equivalents at the beginning of the year		695 247	1 106 993
Cash and cash equivalents at the end of the year	11	**10 911 360**	**695 247**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Directive 4

As allowed by the transitional provisions included in Directive 4, the following asset classes have not been measured in accordance with the relevant GRAP standards for the year ended June 30, 2011:

Inventories	(GRAP 12)
Property, plant and equipment	(GRAP 17)
Intangible assets	(GRAP 102)

Management has estimated provisional amounts for each of these asset classes which are included in the statement of financial position. These amounts are subject to change oonce the measurement process has been completed, which is expected to occur by June 30, 2012.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

tandards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting
GRAP 20 Related Party disclosures
GRAP 25 Employee benefits
GRAP 104 Financial instruments
GRAP 105 Transfer of functions between entities under common control
GRAP 106 Transfer of functions between entities not under common control
GRAP 107 Mergers

The municipality has not applied the above accounting statements and interpretations that have been issued but are not yet effective. These will be applied by the municipality when they become effective.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.3 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.3 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	30 years
Infrastructure	10 - 25 years
Community assets - Sports field	30 years
Other property, plant and equipment	2 - 15 years
Land fill site	20 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software, other	3 - 5 years

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

Transaction costs are included in the initial measurement of the instrument.

1.5 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Receivables from exchange transactions

Trade and other receivables are classified as loans and receivables.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Investments

The municipality has investments that comprise of call accounts, money market investment accounts. These are treated as loans and receivables and are initially recorded at fair value and subsequently recorded at amortised cost.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Accounting Policies

1.5 Financial instruments (continued)

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Financial instruments (continued)

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.8 Impairment of non-cash-generating assets (continued)

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

1.9 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Accounting Policies

1.11 Provisions and contingencies (continued)

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.12 Revenue from non-exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates and value-added taxes (VAT)..

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Accounting Policies

1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.15 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.17 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand.

1.20 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.21 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

1.22 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.23 Going concern

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	20 587 156	-	20 587 156	20 587 156	-	20 587 156

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	20 587 156	20 587 156

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	20 587 156	20 587 156

Pledged as security

There is no investment property pledged as security.

Figures in Rand	2012	2011

2. Investment property (continued)

Details of property

AIRFIELD		
Himeville Erf no 15978		
- Purchase price:	2 161 000	1 520 000
- Revalued - 01 July 2008	-	8 448 000
	2 161 000	**9 968 000**
SISONKE OFFICES		
-Fire station - Himeville - Efr no 334		
- Purchase price: 2006/2007	2 300 000	96 000
- Revalued - 01 July 2008	-	8 324 000
	2 300 000	**8 420 000**
CLINIC		
Terms and conditions		
- Purchase price: 1984/1985	7 500 000	142
- Revalued - 1985/1986	-	8 051
- Revalued - 1991/1992	-	(4 957)
- Revalued - 1997/1998	-	6 050
- Revalued - 2006/2007	-	6 284
- Revalued - 01 July 2008	-	2 584 430
	7 500 000	**2 600 000**

Rental income from investment property (recognised in surplus for the year)

Airfield
The municipality leases the airfield to 5 private individuals. The lease agreement was entered into on 1 March 2006 for a 3 year period. It has been extended for a further 3 years and terminates on the 28 February 2012. Lease rentals for the airfield escalate at a rate of 10% per annum.

Sisonke offices
The municipality leases buildings to Sisonke District Municipality. This is a yearly contract that is renewable by 3 months notice by either party. Lease rentals escalate at a rate of 12% per annum.

Clinic
The municipality leases the clinic building to the Provincial Department of Administration. The lease term is for a period of 5 years and commenced on the 1 November 2005. Lease rentals escalate at a rate of 8% per annum.

These leases are classified as operating lease. Refer to note 29.2 for operating lease disclosure.

Details of valuation

Investment properties are stated at fair value, which has been determined by an independent valuer, Mr IO Gordon (Professional Valuer); of Ian Gordon Property Valuers CC. Ian Ogilvie Gordon is not connected to the municipality and has recent experience in location and category of the investment property being valued. The effective date of the revaluations was 01 July 2008. The valuation was based on open market value for existing use.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12 789 000	-	12 789 000	13 320 000	-	13 320 000
Buildings	20 997 749	(1 334 587)	19 663 162	20 458 669	(1 334 587)	19 124 082
Plant and machinery	641 337	(398 701)	242 636	619 837	(428 651)	191 186
Furniture and fixtures	377 724	(254 478)	123 246	376 118	(254 478)	121 640
Motor vehicles	2 225 923	(1 164 413)	1 061 510	1 681 122	(680 808)	1 000 314
Office equipment	849 806	(609 442)	240 364	442 580	(269 890)	172 690
Infrastructure	21 202 154	(5 336 613)	15 865 541	10 807 032	(4 606 339)	6 200 693
Community assets	3 584 352	-	3 584 352	1 205 813	-	1 205 813
Capital work in progress	1 364 691	(433 456)	931 235	1 364 691	(365 162)	999 529
Other property, plant and equipment # 1	1 341 514	-	1 341 514	1 034 471	-	1 034 471
Tools and loose gear	6 485	-	6 485	6 485	-	6 485
Other property, plant and equipment # 4	55 152	(38 742)	16 410	55 152	(38 742)	16 410
Total	**65 435 887**	**(9 570 432)**	**55 865 455**	**51 371 970**	**(7 978 657)**	**43 393 313**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Revaluations	Depreciation	Impairment loss	Total
Land	13 320 000	-	-	(531 000)	12 789 000
Buildings	19 124 082	-	-	539 080	19 663 162
Plant and machinery	191 186	-	-	51 450	242 636
Furniture and fixtures	121 640	-	1 606	-	123 246
Motor vehicles	1 000 314	-	61 196	-	1 061 510
Office equipment	172 690	-	67 674	-	240 364
Infrastructure	6 200 693	9 664 848	-	-	15 865 541
Community	1 205 813	2 378 539	-	-	3 584 352
Other property, plant and equipment	999 529	-	-	(68 294)	931 235
Other property, plant and equipment	1 034 471	307 043	-	-	1 341 514
Tools and loose gear	6 485	-	-	-	6 485
Other property, plant and equipment # 4	16 410	-	-	-	16 410
	43 393 313	**12 350 430**	**130 476**	**(8 764)**	**55 865 455**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land	13 320 000	-	-	-	-	13 320 000
Buildings	18 488 311	1 107 769	-	-	(486 223)	19 109 857
Other assets	230 924	5 900	-	(67 814)	(39 153)	129 857
Furniture and fixtures	153 444	16 890	-	23 656	(48 695)	145 295
Motor vehicles	183 276	1 086 060	(31 586)	-	(237 435)	1 000 315
Office equipment	165 137	64 928	-	37 949	(57 375)	210 639
Infrastructure	6 158 869	770 696	-	-	(728 872)	6 200 693
Community assets	436 966	768 847	-	-	-	1 205 813
Landfill sites	1 067 826	-	-	10 458	(68 297)	1 009 987
Other property, plant and equipment # 1	1 034 471	-	-	-	-	1 034 471
Emergency equipment	8 044	13 365	-	9 977	(4 999)	26 387
Capital work in progress	-	1 034 471	-	-	-	1 034 471
	41 247 268	**4 868 926**	**(31 586)**	**14 226**	**(1 671 049)**	**44 427 785**

Borrowing costs capitalised

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	-	-	-	404 862	(339 552)	65 310

Reconciliation of intangible assets - 2012

	Opening balance	Impairment loss	Total
Computer software, other	65 310	(65 310)	-

Reconciliation of intangible assets - 2011

	Opening balance	Difference	Amortisation	Total
Computer software, other	-	**65 310**	-	65 310
Intangible assets 1	404 862	**(65 309)**	(339 553)	-
	404 862	**1**	**(339 553)**	**65 310**

5. Investments

	2012	2011
Call investment deposits	20 617 486	12 371 586

Deposits of R977,104 at 30 June 2011 (2010: R977,104) have been ceded to the Development Bank of South Africa (DBSA) as collateral for the loan of R3,417,312 taken up from DBSA. (see note 11)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Investments (continued)

	-	-
	-	-
	-	-
	-	-
	20 617 486	12 371 586

Current assets		
Loans and receivables	20 617 486	12 371 586
Non-current assets	-	-
Current assets	20 617 486	12 371 586

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

6. Employee benefit obligations

7. Receivables from exchange transactions

8. Other receivables

Fines	-	(163 338)
Other receivables from non-exchange revenue 1	1 000 208	1 001 795
	1 000 208	**838 457**

9. VAT receivable

VAT	605 770	591 168

10. Consumer debtors

Gross balances		
Rates	5 675 691	4 558 950
Refuse	632 317	458 915
Business service levies	88 863	68 897
Regional services levies	2 105	2 588
Other (specify)	159 738	229 883
	6 558 714	**5 319 233**

Less: Provision for debt impairment		
Rates	(2 058 791)	(1 444 989)

Net balance		
Rates	3 616 900	3 113 961
Refuse	632 317	458 915
Business service levies	88 863	68 897
Regional services levies	2 105	2 588
Other (specify)	159 738	229 883
	4 499 923	**3 874 244**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Consumer debtors (continued)

Rates		
Current (0 -30 days)	35 043	67 785
31 - 60 days	524 025	412 482
61 - 90 days	364 790	279 800
91 - 120 days	358 920	264 463
121 - 365 days	379 152	3 534 420
> 365 days	4 906 654	-
	3 616 900	**4 558 950**

Refuse

Business service levies

Regional services levies

Other (specify)

Reconciliation of debt impairment provision		
Balance at beginning of the year	-	(1 644 760)
Contributions to provision	(1 608 326)	(139 177)
Debt impairment written off against provision	(450 465)	175 611
	(2 058 791)	**(1 608 326)**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 1 444 988 (2011: R 1,444,988) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	35 043	511 294
2 months past due	523 838	349 424
3 months past due	357 558	324 303
Over 3 months past due	3 593 354	2 585 254

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R - (2011: R 1 444 988) were impaired and provided for.

The amount of the provision was R - as of 30 June 2012 (2011: R 1 444 988).

The ageing of these loans is as follows:

Over 3 months	-	1 444 988

The fair value of trade and other receivables approximates their carrying amounts.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Cash and cash equivalents (continued)

	2012	2011
Cash on hand	1 391	1 983
Bank balances	1 481 466	-
Short-term deposits	95 693	87 974
Other cash and cash equivalents	687 362	674 497
Bank overdraft	-	(69 207)
	2 265 912	**695 247**

	2012	2011
Current assets	2 265 912	764 454
Current liabilities	-	(69 207)
	2 265 912	**695 247**

Sub (Pty) Ltd is a controlled entity located in Zimbabwe and is subject to exchange controls of that country. These exchange controls limit the amount of funds that can be transferred into the controlling entity located in the republic of South Africa.

Figures in Rand	2012	2011

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts

KwaZulu-Natal Provincial Adiministration Grants	1 844 217	2 151 297
Sisonke Grant - capacity buildings	74 515	74 514
Sisonke Grnat - waste disposal Site	29 119	29 119
Sisonke Grant - shared planner	46 720	46 720
MFMA Grants	89 554	226 192
MSIG Grants	(26)	457 179
MIG Grants	1 652 738	3 245 643
DBSA Grant	35 045	35 045
NEP Grant - Electrification	835 331	835 331
Housing Grants - Stepmore Project	204 029	204 029
Housing Grants - Maguswana Projects	1 578 840	3 041 035
Housing Grants - Investment net income	801 946	801 946
Free electricity	101 926	101 926
Free basic services	296 372	296 372
Arts & Culture	70 833	-
MAP	201	-
MPRA	1 604	-
Town Planner	(46 720)	-
Sports & recreation	131 338	-
Reichenau Mission	4 171 591	-
Small town rehabilitation	3 812 244	-
National treasury grants	3 929 013	-
SDF	500 000	-
	20 160 430	**11 546 348**

KwaZulu-Natal Provincial Administration Grants

Balance unspent at the beginning of the year	(2 151 297)	(2 053 783)
Current year receipts	-	(1 157 493)
Conditions met transferred to revenue	307 080	1 059 979
	(1 844 217)	**(2 151 297)**

Sisonke Grant - capacity buildings

Balance unspent at the beginning of the year	(74 514)	(74 514)

Sisonke Grant - Waste disposal site

Balance unspent at the beginning of the year	(29 119)	(29 119)

Sisonke Grant - Waste disposal site

Balance unspent at the beginning of the year	(42 800)	-
Current year receipts	-	(256 800)
Conditions met transferred to revenue	-	214 000
	(42 800)	**(42 800)**

MFMA grants

Balance unspent at the beginning of the year	(226 192)	(279 420)
Current year receipts	(1 500 000)	(1 500 000)
Paid to NT	226 192	-
Conditions met transferred to revenue	1 410 446	1 553 228
	(89 554)	**(226 192)**

MSIG Grants

Balance unspent at the beginning of the year	(457 179)	(612 912)
Current year receipts	(790 000)	(750 000)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Unspent conditional grants and receipts (continued)

Paid to NT	386 808	-
Conditions met transferred to revenue	860 397	905 733
	26	**(457 179)**

MIG Grant

Balance unspent at the beginning of the year- Restated	(3 245 643)	(3 767 537)
Restated as confirmation from CoGTA	3 245 643	-
Current year receipts	(7 887 000)	(1 882 000)
Conditions met transferred to revenue	6 234 262	2 403 894
	(1 652 738)	**(3 245 643)**

DBSA Grant

Balance unspent at the beginning of the year	(35 045)	-
Current year receipts	-	(285 367)
Conditions met transferred to revenue	-	250 322
	(35 045)	**(35 045)**

NEP Grant - Electrification

Balance unspent at the beginning of the year	(835 331)	-
Current year receipts	-	(7 488 000)
Conditions met transferred to revenue	-	6 652 669
	(835 331)	**(835 331)**

Housing Grants - Stepmore Project

Balance unspent at the beginning of the year	(204 029)	(204 029)

Housing Grants - Maguswana Project

Balance unspent at the beginning of the year	(3 041 035)	(3 094 510)
Conditions met transferred to revenue	1 462 195	53 475
	(1 578 840)	**(3 041 035)**

Housing Grants - Investment net income

Balance unspent at the beginning of the year	(801 946)	(646 465)
Current year receipts	-	(155 481)
	(801 946)	**(801 946)**

Free electricity

Balance unspent at the beginning of the year	(101 926)	(169 821)
Conditions met transferred to revenue	-	67 895
	(101 926)	**(101 926)**

Free basic services

Balance unspent at the beginning of the year	(296 372)	(296 372)

Arts & Culture

Balance unspent at the beginning of the year	(35 381)	-
Current year receipts	(236 554)	-
Conditions met transferred to revenue	201 102	-
	(70 833)	**-**

MAP

Balance unspent at the beginning of the year	(158 147)	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Unspent conditional grants and receipts (continued)

Conditions met transferred to revenue	157 946	-
	(201)	**-**

MPRA		
Balance unspent at the beginning of the year	(113 552)	-
Conditions met transferred to revenue	111 948	-
	(1 604)	**-**

MAP		
Balance unspent at the beginning of the year	(158 147)	-
Conditions met transferred to revenue	157 946	-
	(201)	**-**

Town Planner		
Balance unspent at the beginning of the year	46 720	-

Sports & recreation		
Current year receipts	(150 000)	-
Conditions met transferred to revenue	18 662	-
	(131 338)	**-**

Reichenau Mission		
Current year receipts	(5 000 000)	-
Conditions met transferred to revenue	828 409	-
	(4 171 591)	**-**

Small town Rehabilation		
Current year receipts	(4 430 000)	-
Conditions met transferred to revenue	617 756	-
	(3 812 244)	**-**

KwaZulu-Natal Provincial Administration Grants
These grants were received from the KwaZulu Natal Provincial Administration and the main purpose is to assist in reporting on municipal service delivery.

12. Unspent conditional grants and receipts (continued)

Sisonke Grants
These grants were received from Sisonke District Municipality for capacity building, waste disposal and providing a town planner between Ingwe Municipality and Kwa Sani Municipality

MFMA Grants
This grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA. As part of strengthening financial and asset management in municipalities, the grant provided funding for an internship programme.

Municipal Systems Improvement Grant (MSIG)
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructing grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical services.

Municipal Infrastructure Grant (MIG)
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

DBSA Grant
This grant was provided by the Development Bank of South Africa to assist in the development of rural areas.

NEP Grant - Electrification
This grant was provided by Eskom to municipalities to address the electricity backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Housing Grants - Stepmore Project
This grant was provided by the Department of Human Settlement for the construction of low costing in the Stepmore area. The project was approved by the Department of Human Settlement in 2002 and construction began in 2005. The project has been stopped during the year by the Department of Human Settlement due to low standards and is currently under forensic investigation.

Housing Grants - Maguswana Project
This grant was provided by the Department of Human Settlement for the construction of low costing in the Maguswana area. The project was approved by the Department of Human Settlement in 2002 and construction began in 2005. The project has been stopped during the year by the Department of Human Settlement due to low standards and is currently under forensic investigation.

Free electricity
This grant is used to subsidise the provision of electricity services to indigent community members.

Free basic services
This grant is used to subsidise the provision of basic services to indigent community members.

Figures in Rand	2012	2011

13. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Environmental rehabilitation	1 540 000	-	(1 540 000)	-	-
Post Employment Benefit Obligation	389 102	401 462	-	(389 102)	401 462
	1 929 102	**401 462**	**(1 540 000)**	**(389 102)**	**401 462**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	1 540 000	-	1 540 000
Post Employment Benefit Obligation	-	389 102	389 102
	1 540 000	**389 102**	**1 929 102**

	2012	2011
Non-current liabilities	401 462	389 102
Current liabilities	-	1 540 000
	401 462	**1 929 102**

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

There is no expected reimbursement (from the manufacturer) in respect of this provision.

The restructuring provision relates to redundancy costs incurred on the disposal of. At , approximately -% of the staff had been retrenched. The remainder departed in .

The municipality moved from its previous leased premises. The lease in non-cancellable and the lease continue for the next - years. The municipality cannot find a lessee to occupy the premises.

14. Long Term Portion

The municipality received a loan from DBSA to fund the Rehabilitation of roads. The term of th eloan is 10 years, the date of redemption is december 31,2016. Interest charged is 5% per annum, payable every 6 months.

The annuity loan is secured over investment deposit of R977, 104. (2010): R977104

	2012	2011
DBSA		
Annuity Loans	196 110	2 082 729
Less: Current portion transferred to current liabilities	(354 980)	(166 481)
	(158 870)	**1 916 248**

15. Other liability

	2012	2011
Contigent liability		
Rental for printers	(354 980)	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Payables from exchange transactions

Trade payables	3 632 639	1 384 591
Other payables 2	759 582	567 993
Leave Pay Accrual	504 644	986 458
Accrued expense 1	685 933	773 331
Retention	399 574	293 270
Audit fee provision	(117 030)	(117 030)
Unidentified receipts	179 025	261 512
Sisonke deposit	6 406	6 406
	6 050 773	**4 156 531**

17. Revenue

Property rates	10 784 908	9 974 496
Service charges	1 941 708	1 836 559
Fines	124 850	143 400
Licences and permits	98 604	86 785
Government grants & subsidies	22 327 319	22 225 753
	35 277 389	**34 266 993**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 941 708	1 836 559
Licences and permits	98 604	86 785
	2 040 312	**1 923 344**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	10 784 908	9 974 496
Fines	124 850	143 400
Transfer revenue		
Levies	22 327 319	22 225 753
	33 237 077	**32 343 649**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Property rates

Actual

Residential	4 479 600	4 278 778
Commercial	4 924 261	4 081 571
State	596 819	578 442
	10 000 680	8 938 791
Property rates - penalties imposed and collection charges	784 228	1 035 705
	10 784 908	**9 974 496**

Valuations

Residential	595 331 080	592 337 480
Commercial	139 860 000	418 759 000
State	418 735 000	100 559 000
Other	1 703 376 620	1 453 893 620
	2 857 302 700	**2 565 549 100**

Valuations on land and buildings are performed every X years. The last general valuation came into effect on 1 July 20XX. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R - (2011: R -) is applied to property valuations to determine assessment rates. Rebates of -% (2011: -%) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date for payment being 30 September 2010 (30 September 2009). Interest at prime plus 1% per annum (2011: -%) and a collection fee of -% (2011: -%), is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2007.

19. Service charges

Service charges	1 925 370	1 836 559
Refuse Bag Sales	1 715	-
Garden Refuse	14 723	-
	1 941 808	**1 836 559**

Figures in Rand	2012	2011

20. Government grants and subsidies

Equitable share	9 904 000	8 754 799
Reichenau	828 409	18 731
Housing projects	2 006 042	-
Sisonke Grant revenue - shared planner	46 720	-
Small town Rehab	617 756	-
ARTS & CULTURE GRANT	-	143 517
ELECTRIFICATION GRANT	-	6 652 669
MIG - revenue	-	2 767 128
Sisonke Grant revenue - shared planner	-	214 000
Government grant MIG	6 234 262	-
MAP	157 946	113 484
MPRA	111 948	410 388
MUN FIN MANAGEMENT GRANT	1 410 446	1 553 228
MSIG GRANT	790 026	495 345
ARTS & CULTURE GRANT	201 102	-
SPORTS GRANT INCOME	18 662	748 247
Rural Development	-	250 322
FREE SERVICES GRANT	-	67 895
PLANNING & DEVELOPMENT GRANT	-	36 000
	22 327 319	**22 225 753**

21. Other income

Other income	507 696	689 744

22. General expenses

Advertising	271 006	316 817
Auditors remuneration	645 993	797 909
Bank charges	33 967	32 745
Computer expenses	79 791	146 307
Consumables	30 979	53 068
Entertainment	40 710	50 318
Lease rentals on operating lease	21 688	278 786
Motor vehicle expenses	19 311	10 111
Fuel and oil	447 447	370 802
Postage and courier	30 214	68 068
Printing and stationery	101 706	280 574
Subscriptions and membership fees	124 619	115 490
Telephone and fax	452 856	333 916
Water	60 603	81 815
Uniforms	51 350	30 173
Expense 1	-	410
Travel and subsistance	411 888	978 388
Sundry Expenses	73 731	111 937
Expense 6	1 365 783	8 361 439
Public Participation	50 879	60 772
Provision for bad debt	450 464	-
Other Expense	224 147	152 940
Operational Grant Expenditure	3 529 345	2 373 177
	8 518 477	**15 005 962**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Employee related costs

Basic	8 936 189	7 654 901
Medical aid - company contributions	269 994	231 847
UIF	96 400	68 773
SDL	99 255	80 521
Leave pay provision charge	(212 099)	801 099
Pension contribution	820 448	675 370
Overtime payments	716 612	544 424
	143 315	262 957
Acting allowances	-	40 044
Housing benefits and allowances	19 812	20 184
	644 808	561 803
Other	3 288	3 169
	11 538 022	**10 945 092**

Remuneration of municipal manager

Annual Remuneration	293 726	689 613
Car Allowance	62 578	-
Contributions to UIF, Medical and Pension Funds	3 570	1 497
Total	**359 874**	**691 110**

Remuneration of chief finance officer

Annual Remuneration	583 438	312 512
Car Allowance	114 042	-
Performance Bonuses	34 833	-
Contributions to UIF, Medical and Pension Funds	3 000	873
	735 313	**313 385**

Remuneration of executive directors

Annual Remuneration	797 029	377 101
Travel, motor car, accommodation, subsistence and other allowances	106 638	6 576
Performance Bonuses	63 038	-
Contributions to UIF, Medical and Pension Funds	120 042	24 012
Housing benefits	6 204	-
	1 092 951	**407 689**

24. Remuneration of councillors

Executive Major	-	221 224
Deputy Executive Mayor	-	9 933
Speaker	79 016	57 851
Councillors	1 335 144	490 545
Councillors allowances	-	270 307
	1 414 160	**1 049 860**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of the Council owned vehicles for official duties.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Debt impairment

Debt impairment	-	175 611

26. Investment revenue

Interest revenue		
Interest received	760 016	479 529
	-	-
	760 016	479 529

27. Depreciation and amortisation

Property, plant and equipment	1 100 572	1 693 653

28. Finance costs

Current borrowings	349 193	280 959

29. Auditors' remuneration

Fees	645 993	797 909

30. Rental of facilities and equipment

31. Contracted services

Information Technology Services	1 298 367	1 130 297
Fleet Services	1 793 572	1 504 279
Operating Leases	172 394	181 530
Specialist Services	654 763	521 726
Other Contractors	551 758	158 425
	4 470 854	**3 496 257**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Cash generated from operations

Surplus	14 166 870	2 508 181
Adjustments for:		
Depreciation and amortisation	1 100 572	1 693 653
Loss on sale of assets and liabilities	(77 858)	(44 932)
Fair value adjustments	(8 626 156)	-
Finance costs	-	24 667
Impairment deficit	3 210 860	-
Debt impairment	-	175 611
Contribution to provisions- non current	(1 527 640)	140 000
Employee service costs- Long service award	-	81 756
Transfers to accumulated surplus	-	(243 233)
Investment income	-	(479 529)
Finance costs	-	256 292
Changes in working capital:		
(increase)/ decrease - Trade & other receivables	(161 751)	(916 796)
(Increase)/ Decrease in VAT receivables	(625 679)	337 054
Adjustment to property, plant & equipment- book value of vehicles	-	33 748
Payables from exchange transactions	1 894 243	-
VAT	(14 602)	(40 433)
Unspent conditional grants and receipts	8 614 082	-
Increase/ (Decrease) in trade payables	-	27 957
Contingent rentalls	354 980	-
Increase / (Decrease) in conditional grants & receipts	-	317 866
	18 307 921	**3 871 862**

Figures in Rand	2012	2011

33. Capital Commitments

Commitements in respect of capital expenditure

Approved and contracted for		
• Infrastructure	13 726 154	995 689
• Other	532 725	1 645 775
	14 258 879	**2 641 464**

This expenditure will be financed from:		
- External loans	13 726 154	506 632
- Government Grants	532 725	-
- Own resources	-	2 134 932
	14 258 879	**2 641 564**

Operating leases - lessee

Minimum lease payments due		
- within one year	199 259	227 743
- in second to fifth year inclusive	391 299	590 558
	590 558	**818 301**

The total future minimum sublease payment expected to be received under non-cancellable sublease

Operating lease payments represent rentals payable by the municipality for printers. Lease periods for the printers vary between 3 to 5 years. Lease rentals for the printers escalate between 10% to 15%.

Operating leases - lessor

Minimum lease payments due		
- within one year	81 105	81 186
- in second to fifth year inclusive	158 693	240 798
	239 798	**321 984**

Operating Leases consists of the following:

Airfield
The municipality leases the airfield to 5 private individuals. The lease agreement was entered into on 1 March 2006 for a 3 year period. It has been extended for a further 3 years and terminates on the 28 February 2012. Lease rentals for the airfield escalate at a rate of 10% per annum.

Telkom
The municipality leases a building to Telkom. The lease term is for a period of 9 years 11 months and will terminate in November 2014. Lease rentals escalate at a rate of 8% per annum.

Sisonke offices
The municipality leases buildings to Sisonke District Municipality. This is a yearly contract that is renewable by 3 months notice by either party. Lease rentals escalate at a rate of 12% per annum.

Clinic
The municipality leases the clinic building to the Provincial Department of Administration. The lease term is for a period of 5 years and commenced on the 1 November 2005. Lease rentals escalate at a rate of 8% per annum.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Risk management

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.
Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.
The municipality's financial liabilities are all classified as current liabilities, payable within the next 12 months, other than the long term portion of borrowings which has a non-current portion.

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

Interest rate risk

Interest rate risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:
- Annuity loan
- Investments

Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the municipality's surplus or deficit for the year.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2012	2011
Investments	20 617 486	12 371 586
Cash and cash equivalents	2 265 912	764 454
Trade and other receivables	6 558 715	4 712 701

Fair value hierachy

The municipality does not carry any of its financial assets at fair value. The fair value hierachy disclosure is therefore of no relevance and has not been included.

35. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated deficits of R 76 835 966 and that the municipality's total liabilities exceed its assets by R 76 835 966.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

35. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

36. Unauthorised expenditure

At the time of completion of the annual financial statements, there was no unauthorised expenditure.	-	7 804 486

37. Fruitless and wasteful expenditure

Kwa Sani Municipality is an excutive plenary council with part time councillors. Councillors were incorrectly paid as executive committee members for the duration of their term. Incorrect scale was utilised resulting in fruitless and wasteful expenditure. Prior year payments made amount to R544,243.16 and current year payments made amount to R201,209.36. This was in excess of the allowances that should have been paid. Included in these figures is an amount that relates to the salary of a deputy mayor. As Kwa Sani Municipality is a plenary executive council, the mayor is the speaker. There is no position available for a deputy mayor. However, a deputy mayor was appointed since inception of the council.	201 209	201 209
Notice to discontinue books	-	2 223
Summons books (Section 56)	-	6 242
Accomodation for 5 KSM staff attending KwaNaloga Games in Richards Bay	-	12 000
Department of Transport - Vehicle Tyres were not Raodworthy	300	-
	201 509	**221 674**

38. Irregular expenditure

Opening balance	5 864 827	1 624 038
SCM Deviations Awaiting Ratification	-	4 240 789
SCM Deviations Ratified	2 913 746	993 827
Less: Amounts recoverable (not condoned)	(24 095)	-
	8 754 478	**6 858 654**

39. Leases (Effects of transitional provisions)

In accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework, the municipality need not comply with the standard on Leases, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expire:

- Construction Contracts
- Inventories
- Investment Property
- Property Plant and Equipments
- Provisions, Contingent Liabilities and Contingent Assets
- Agriculture
- Intangible Assets

Figures in Rand	2012	2011

40. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.